

CHAPTER TWO

Filling in the gaps

Preparing for the end of free movement

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The state we're in

Migrants or those born outside the UK account for 18 per cent of people in work and have accounted for two-thirds of the growth in employment over the past five years

Nearly half of firms we polled expect free movement to continue or that all immigrants with a job offer will be able to move to the UK

Net migration has fallen to below 250,000 for the first time in three years

What should we do?

The government needs to provide a clear vision for the country's future immigration system well before the point at which the UK leaves the EU

The MAC needs greater resources and a broader role in deciding what skills immigration needs to provide

A streamlined system for skilled EU/EEA migrants, temporary worker schemes, and more investment in enforcement are all likely to be needed

It is the combined effect of the shifts discussed in the previous chapter that could add up to a turning point in the availability and cost of labour at the bottom of Britain's labour market. But the certainty with which we can predict the elements of these shifts varies significantly. The scale and pace of increases to the National Living Wage are fairly clear right through until 2022 – even if their impact is not. In contrast there is huge uncertainty about the other big shift coming to the UK labour market – the pace and nature of a reduction in migration. Significant policy uncertainty about the UK's post-Brexit migration regime combines with the complexity of how individuals and firms change their behaviour to make a wide range of outcomes possible.

This chapter focuses on this uncertainty, the questions that the decision to leave the EU raises about the UK's approach to immigration, the implications for the labour market, and the fact that many firms appear wholly unprepared for the way in which immigration is likely to decline in future. This is intentionally a partial labour market

focus, leaving aside other important debates about the public finances, public service use and wider social impacts.

Upon leaving the EU the government will be able to impose restrictions on immigration from the continent. The Conservatives have promised to use this new-found freedom to significantly reduce net migration, perhaps by as much as two-thirds from its current level. By contrast Labour have not committed to reducing migration by any specific amount, but have promised to ‘manage’ migration and end freedom of movement. Both parties have provided very few specific details about how the immigration system will function after we leave the EU.

Meanwhile there are already signs that migration is falling and new research for this publication highlights the fact that firms are woefully under-prepared for a significant

Migration has ebbed and flowed over the course of the last two decades

change. Now is therefore the time for the government to set out the future immigration system that businesses should be preparing to operate within.

That means going beyond generalities about lower overall numbers, or more managed migration, to providing clarity on the time-frame for change, what types of migrants will no longer be permitted to move to the UK and what, if any, transitional arrangements will help businesses and the economy adjust. This chapter sets out some broad principles that should be front of mind as the government seeks to change the country’s immigration system. For the purposes of this chapter we take that change as a given, assuming the new government is able to deliver on their policy intentions.

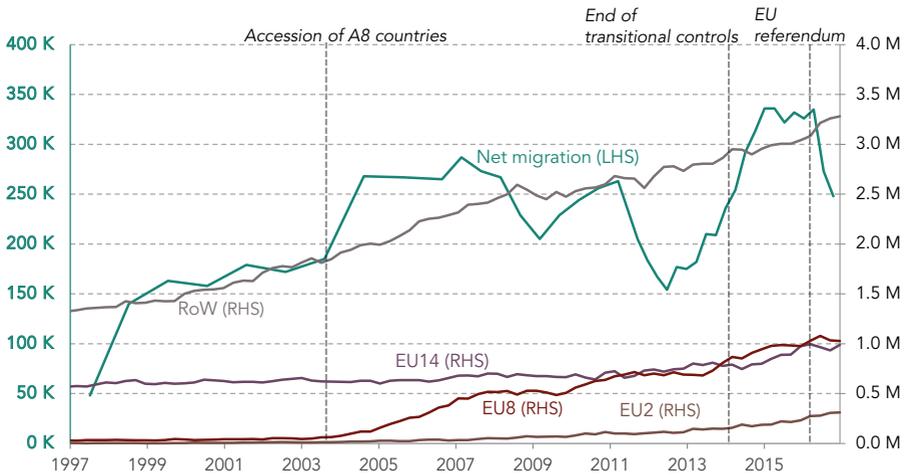
Migrants form a significant part of the UK labour market

These are not small issues for our labour market. Migrants’ play a significant part in the UK’s economy and labour market – in terms of scale, growth in labour supply and flexibility.

Migration has ebbed and flowed over the course of the last two decades. Change has been driven by a number of factors including; the state of the UK’s economy, the country’s immigration regime and the situation in other countries. Figure 1 shows that net migration (on the left-hand axis) rose steadily from the mid-1990s, spurred by the relative performance of the British economy and value of the pound. There was a sharp increase after 2004 when the A8 countries joined the EU and the number of A8 workers in the labour force rose sharply. Numbers dipped from the financial crisis until 2014, when net migration rose to new highs until the EU referendum, following which it has fallen. As a result of rising net migration the number of migrants in the labour force (right-hand axis) has also risen.

The result is that today 18 per cent of all people in work were born abroad. Migrants play an even more significant role in the growth of labour supply than in the stock; migrants account for two-thirds of the increase in employment over the past five years.

Figure 1: Migration and the numbers of migrants in the UK labour force



Source: RF analysis of ONS, *LFS* and *International Passenger Survey (IPS)*

For the size of the UK economy in aggregate these are very significant numbers. But migration has not only increased the overall size of the UK labour force, it has also increased its flexibility. For example it has increased the geographic mobility of our labour force: migrants are much more likely, as much as twice as likely in the case of EU migrants, to move regions than natives. Furthermore migrants tend to go to parts of the UK labour market that are tightest in the first place; migrants form between a third and a half of all residents in many London boroughs. In addition, migrants respond quickly to changes in demand; migrant populations have increased fastest in many parts of the country that heavily rely on temporary, flexible labour.²

Readily available migrant labour, with low costs of hiring in the case of workers from within the EU, has also played a significant role in reducing labour and skill shortages. Its existence will also have affected decisions taken by firms in terms of what to produce and what investments in capital and training are needed.

So taken together migration has meant a bigger, faster growing and more flexible labour supply in recent years. It has also meant British firms becoming used to the availability of plentiful, flexible labour. Given this, any significant change in migration is likely to have a big and complex impact on our labour market.

From current high levels it is likely migration numbers will fall in future

We believe Britain is set for just such a change. Although the scale of that change is not yet clear it is likely that the country will see a shift in migration numbers in both the relatively near future and more structurally following post-Brexit changes in the migration regime.

The Conservative government's explicit recent reaffirmation of their commitment to reduce net migration to the tens of thousands (alongside promises in their manifesto to increase the earnings thresholds for people wishing to sponsor migrants for family visas and increases in the costs of employing non-EU/EEA workers), combined with policy freedom to restrict EU and EEA migration (the Brexit White Paper stated that

Net migration has already fallen
from a high of 335,000 to 248,000

in the future the country will control the numbers of people coming to the UK from the EU³) means that it is reasonable to assume migration could fall significantly.

The Labour party have not committed to such a significant reduction but have promised to end freedom of movement, with new controls imposed on EU migration. Although many changes will not happen until we depart the EU, the fall in the value of Sterling – down 12 per cent in trade-weighted terms since the vote to leave the EU – and the fact that many immigrants may perceive the UK as less welcoming or may feel unsure about their right to remain in the country, could mean a decline comes earlier.⁴

Indeed as shown in Figure 1 net migration has already fallen from a high of 335,000 to 248,000. Recent data suggests that the number of EU14 and EU8 migrants in the labour force may have plateaued but the referendum has had no discernible effect on the numbers of Bulgarian and Romanian workers. The absolute size of changes to date is not yet substantial, so it is not surprising that in a new mid-April 2017 survey for this publication of around 500 firms that employ EU/EEA migrants, two-thirds reported that they had seen no change in the number of migrants they employ. However such evidence does not exclude the possibility that specific sectors have experienced shortages. The agricultural sector (see Box 3), food manufacturing and the health service have all voiced concerns that they are having trouble finding staff.⁵

Changes in migration will affect some sectors much more than others

If net migration falls it is likely that those sectors that are particularly reliant on migrant labour will feel the pinch first. Table 1 shows that nearly four in ten employers in the food manufacturing sector and a similar proportion of domestic workers were born abroad. One in three employees in hotels, bars and restaurants are migrants with a significant proportion of these coming from the EU. Despite not being the focus of this publication it is worth noting that some higher paid sectors also have sizeable migrant

Table 1: **Some industries are very reliant on migrant labour: 2014-2016**

Industry	Share of total employment (%)				All migrants
	EU14	EU8	EU2	RoW	
Manufacture of food products	4.0%	24.1%	1.8%	11.2%	41.1%
Domestic personnel	5.7%	10.2%	6.3%	17.2%	39.3%
Undifferentiated goods	4.2%	13.4%	4.2%	13.8%	35.6%
Manufacture of wearing apparel	3.1%	6.7%	0.8%	21.0%	31.6%
Accommodation	4.5%	11.4%	3.1%	11.6%	30.5%
Food and beverage service activities	4.5%	5.4%	1.6%	18.5%	30.1%
Extraterritorial organisations	4.2%	0.1%	0.0%	25.3%	29.6%
Security & investigation activities	1.5%	2.9%	0.7%	22.1%	27.2%
Services to buildings and landscape	3.4%	7.4%	2.8%	11.9%	25.5%
Computer programming and consultancy	5.1%	1.6%	0.6%	18.0%	25.4%
Warehousing & support for transport	2.0%	10.9%	1.7%	10.3%	25.0%
Scientific research and development	6.4%	1.8%	0.7%	15.8%	24.6%
Land transport inc via pipelines	1.3%	3.4%	1.0%	18.2%	23.9%
Residential care activities	1.9%	2.8%	1.3%	15.3%	21.2%
Manufacture of textiles	1.9%	7.6%	0.5%	10.9%	20.8%

Source: RF analysis of ONS, LFS

workforces – a quarter of employees in computer programming and scientific research were born outside the UK. Sectors with high staff turnover are likely to feel the impact first, and this tends to be higher in lower paying sectors such as hospitality.⁶

Firms appear unprepared and have unrealistic expectations about the UK's future immigration system

The combination of a likely reduction in migration with heavy reliance by some firms on such labour means that significant adjustments to ways of working are likely to be needed in parts of our economy. Those adjustments will take time and need planning for, but there is very little sign of that taking place (see Box 1).

The fact that firms are not expecting big changes in the short term may be understandable given that changes in net migration are about the flow of migrant labour and take time to have a sizable impact on the stock of workers. More concerning looking further ahead however is the risk that firms may be complacent about the scale of the change coming, with the risk that they are left disappointed and surprised by the immigration system eventually adopted, and with insufficient time to make the transition to a new reality.

Figure 2 shows both what firms would *like* to happen and what they *expect* by way of a post-Brexit immigration system. In terms of preferences the outer circle suggests

i Box 1: Are firms ready for a fall in migration?

We polled 500 business decision-makers in firms that employed EU/EEA migrants to find out how the fall in migration had affected them in the past six months and if they expected to be affected in the next year.⁷ We found:

- In almost half (42 per cent) of the 500 firms at least one in four staff are migrants. The proportion is over half in 13 per cent of firms.
- Three-quarters of firms (73 per cent) expect that a fall in migration would affect their business.
- In the past six months 65 per cent have seen no change in the number

of migrants they employ.

- Only a quarter of firms (26 per cent) expect the number of EU/EEA nationals in their workforce to decline in the next year.
- A similar number (24 per cent) actually expect the number to rise.

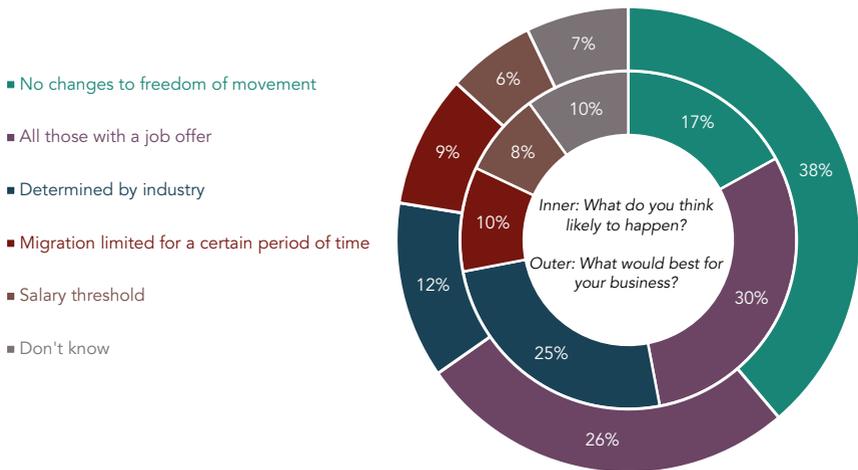
Firms are aware of the importance of migrants to their business, but do not expect that a fall in migration will affect staffing levels in their firm.

There is danger that as a result few are planning for the future and if migration falls faster than expected businesses could be left short of staff.

that firms will be disappointed by the commitment to end freedom of movement and be disappointed with any system that significantly limits immigration. Two-thirds (64 per cent) would like to retain freedom of movement or move to a system where all those with a job can migrate. The first of these has been ruled out by both parties, the second is unlikely to be compatible with the Conservative's target of significant reductions in migration and may not differ much in practice from freedom of movement making it hard to square with the Labour party's 2017 manifesto as well.

The migration system the country chooses however should clearly not just be about what firms would like. More concerning therefore than the fact that firms are unlikely to get the migration system they desire, is the fact that there remains a big difference in what firms expect from the government and what is likely to happen. The inner circle shows that half of firms (47 per cent) expect either free movement to continue or that all those with a job offer will be able to migrate to the UK. This is despite the fact that both parties have ruled out freedom of movement and both indicate that government, rather than business, will play a larger role in the immigration system in the future. Therefore migrant-reliant firms making decisions on the basis of either of those two outcomes are likely to underestimate the scale of change to their business that may be required.

Figure 2: **Doomed to be disappointed? What businesses want and expect from a future immigration system**



Base: All business decision-makers employing EU/EEA nationals (n=503)

Source: Prepared by ComRes, fieldwork 12th - 26th April 2017

The government needs to make clear what the key features of the UK's future immigration system are likely to be

To date too much of the debate about migration and the world of work has been polarised between those saying any change is impossible and the government's rhetoric on reductions in numbers. Instead of that we need a focus on how we make whatever regime we choose to adopt (which is not the main topic of this publication) work best for the UK labour market.

British business can function with a wide range of migration regimes, but moving from the status quo to a very different world without unnecessary economic damage requires both clarity on the eventual destination and time to implement changes.

To that end firms will need to adjust their, currently apparently unrealistic, expectations about the UK's future immigration system and government needs to do more to provide clarity about the regime they are aiming for. Designing and running a new immigration system will be a significant bureaucratic challenge (when the current system is already quite complex – see Box 2) taking years not months, but so are the adjustments firms will need to make to operate in a changed labour market, meaning changes not only to how they produce goods and services but to what they produce in the first place. For both reasons, the sooner the broad principles are clear, the better.

i Box 2: The current immigration system

For those outside the EU/EAA, there are five tiers to the immigration system for people wishing to come to the UK to work, study, invest or train.

Tier 1 – For ‘high-value’ migrants, covering entrepreneurs, investors and those who come under the ‘exceptional talent’ visa. Limited to 1,000 a year, but no limit for investors or entrepreneurs.

Tier 2 – For ‘skilled workers’ where there is a proven shortage, where a firm can’t find a UK or EU/EEA national to do the job, intra-company transfers, and ministers of religion and sportspeople. This is capped at 20,700 a year (although there is no cap for intra-company transfers).

Applicants must have a job offer.

Tier 3 – Designed for low-skilled workers filling specific labour market shortages. No visas ever allocated under this scheme.

Tier 4 – For students aged 16 and over. Applicants must have a place at a UK educational establishment before they can apply (around 200,000 come through this tier per year).

Tier 5 – Includes six sub-tiers of temporary worker including creative and sporting, charity, religious workers and the youth mobility scheme (around 40,000 visas are granted a year, half of which are for those on the youth mobility scheme).

Deciding on these will be difficult, and the considerations and suggestions we outline below focus on ensuring that disruption in the short-run is minimised and that the eventual system best supports the UK labour market. In this respect we make no judgement on the wider impacts of immigration, although we are aware that the government will need to take into account other concerns, not least public opinion, and the Brexit negotiations. The latter could be particularly important given that whatever system we impose on EU/EEA nationals is likely to heavily affect the regime that UK workers wishing to migrate to the EU will face and to shape elements of any eventual free trade deal.⁸

Providing the skills the UK economy needs

Moving away from a world of a very large and varied pool of potential migrant labour with relatively low hiring costs and bureaucracy, to a much more controlled system will put significantly more pressure on government decision making and intelligence. The Conservative party says that it wants to make the immigration system work for sectors facing skills shortages and the Labour party have also said any future system

should reflect economic needs. However, because the existing migration system places relatively little pressure on our ability to judge and forecast skills shortages, introducing a new system that allows far less easy access to migrant labour will require further investment in understanding what skills the UK labour market needs. Furthermore such a system will have to cover a far larger proportion of the labour market than it does currently; the majority of EU migrants work in occupations in the top half of the skills distribution and so a more controlled system could involve managing the labour market on an unprecedented scale.⁹

At present the majority of skilled (non-EU/EEA) migrants come to work in the UK through the Tier 2 visa route. Of these, two-thirds come on an intra-company transfer (ICT). The next most common route is when a firm proves that a UK resident can't do the job (satisfying the Resident Labour Market Test (RLMT)). Finally, fewer than 10,000 people enter each year through the shortage occupation list.

The body that currently advises government in navigating these challenges is the Migration Advisory Committee (MAC) and its role will need to be significantly expanded going forward. It is welcome that the government has already showed some recognition of this need. At present the MAC assesses if an occupation should go on the shortage list for occupations where Tier 2 visas are available. Given that the majority of EU migrants work in skilled occupations this route is likely to have to play a much more significant role in a post-Brexit system, where it covers EU/EEA migrants. Smaller firms in particular who do not have access to ICTs for skilled labour will need

to look to this route. Fewer than 10,000 visas are awarded through the shortage occupation list each year and annually around 150,000 EU migrants come to the UK to work. Therefore it is possible

Less than one in ten firms expect a salary threshold to apply to EU/EEA migrants in future

that the shortage occupation list, and other skilled immigration routes, will have to be significantly expanded. Reassessing which occupations are likely to be on an expanded shortage occupation list (something we discuss in more detail in the next chapter), or how sectors are going to access the skills they need through other routes, once we leave the EU will be a significant task for the government and the MAC.

If migration falls over the long-term, the MAC, may also need to have an expanded remit to assess not just short term shortages but the extent to which UK workers can be trained to fill skill shortages in future, in which sectors businesses may be able to substitute machines for labour, and ultimately which industries will be reliant on migrant labour indefinitely. Such a task will be a big departure from the MAC's current role, and would clearly require wider work with parts of government, but would be necessary if net migration is to be significantly reduced without depriving firms – that may not be able to change the way they operate – of the labour they need.

To reinforce wider changes that will be required beyond simply applying our existing

non-EU migration system to labour from the EU is the fact that less than one in ten firms expect a salary threshold to apply to EU/EEA migrants in future, yet the current system for non-EU/EEA migrants is based on such a threshold. The current regime restricts non-EU/EEA migration to workers that earn at least £30,000 (often the threshold is higher) and only medical radiographers, nurses, paramedics or secondary school teacher in some subjects are allowed to earn less. In contrast currently around 27,000 migrants work in high-skilled occupations (those in which over half of people have a degree) but earn less than £30,000 a year. Three quarters of these work in the following seven occupations:

At present employing non-EU/EEA migrants is expensive and complex

- **Teaching and Educational Professionals**
- **Nursing and Midwifery Professionals**
- **Business, Research and Administrative Professionals**
- **IT and Telecommunications Professionals**
- **Administrative Occupations: Records**
- **Health Professionals**
- **Public Services and Other Associate Professionals**

It is likely that many of the occupations above (aside from those which already benefit from salary exemptions) will require salary exemptions in future.

At present employing non-EU/EEA migrants is expensive and complex. Even small firms are required to pay a minimum of £2,000 to employ someone for the first year and £1,000 a year after that.¹⁰ Costs rise if someone needs to be hired at short notice, and the government has made it clear that charges will rise significantly in future. This also doesn't take into account the significant costs associated with navigating the system. The Institute of Directors claims that due to cost and complexity small firms find it difficult to hire foreign workers.¹¹ Running the system is also expensive for the exchequer and expanding it will require significant investment.

One way to minimise both the cost to business and to the government described above would be to have a simpler, although less controlled immigration system for EU/EEA migrants. Two suggestions that have been proposed would be to make EU/EEA nationals who wanted to work in the UK apply for a visa through a similar system to that for non-EU/EEA nationals but one with lower thresholds (in terms of earnings, qualifications, etc). Another approach would be to impose no restrictions on EU/EEA nationals but cap the number that can come here to work on monthly or annual basis.¹² We suggest a different proposal; to permit migration by EU/EEA migrants with a job offer in an occupation on the shortage list. To minimise costs this regime should make it as easy to hire needed skilled EU migrants as possible. This would satisfy firms operating in areas where experts have concluded there is a genuine shortage, and could be combined with MAC

recommended time limits (perhaps dictated by the time expected to train UK workers to fill the roles or for less labour intensive ways of working to be introduced).

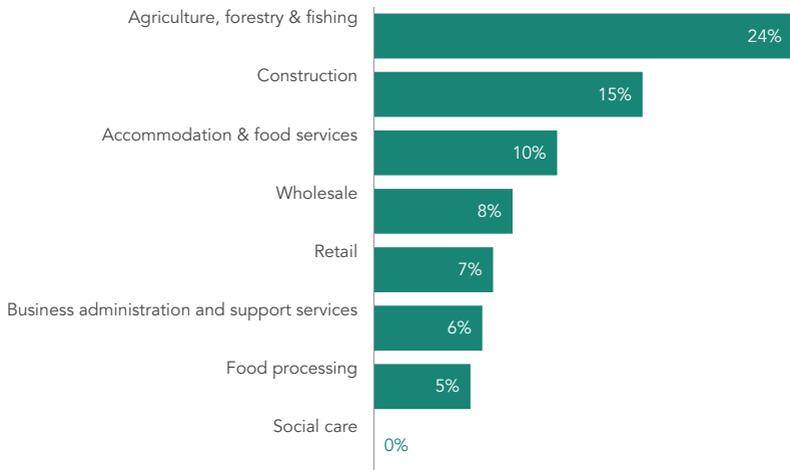
Short-term, relatively low-skilled immigration

It is a fallacy that migrants can be neatly categorised into either high or low skilled. Even amongst EU2 and EU8 migrants 30 – 40 per cent are in occupations in the top half of the skills distribution.¹³ Nevertheless there are some sectors that are reliant on relatively short-term, low-skilled migration. Furthermore every year at least as many, if not twice as many, short-term EU migrants come to the UK as long-term ones.¹⁴ As we outlined in the introduction this is the part of our labour market where the increased costs of labour are likely to most acutely interact with shifts in labour supply via migration changes.

The UK used to run seasonal workers schemes, in particular the Seasonal Agricultural Workers Scheme (SAWS), the Sector Based Scheme (SBS) and the Tier 3 route for unskilled migrants. However the first two were discontinued and the last never used because it was felt that the supply of labour from the EU/EEA was sufficient. David Metcalfe, the previous head of the MAC, has already suggested that a temporary worker scheme could be restarted for low skilled migrants post-Brexit.

Figure 3: Agricultural firms are most likely to be satisfied with a temporary worker scheme

Proportion of firms that want a system where EU/EEA nationals coming to work are only allowed to stay for a certain period of time



Base: All business decision-makers employing EU/EEA nationals (n=503)

Other countries operate such schemes with a number of common features; employers needing to prove that natives cannot do the work, employers paying a charge to employ

i Box 3: The agricultural sector

Different sectors will respond in very different ways to shifts in migration. Agriculture is a sector that – at least for some products – employs a lot of migrants for short time periods and has experience of using temporary worker schemes. We conducted interviews with employers to understand if the referendum had had any effect on recruitment, how they planned to react to any staffing problems in future and what immigration system would be best for their sector.

All interviewees have experienced difficulties recruiting EU staff since the referendum. Compared to 18 months ago one employer had seen the numbers of prospective staff decline from around 800 to 50. This was interpreted as being both due to the fall in the value of the pound since June 2016 and the uncertain long-term position of EU nationals in the UK. Employers have reacted to this by increasing investment on advertising and recruitment in Romania and Bulgaria.

Each interviewee spoke of their desire to use more robots but the required technology was thought to be 10 years or so away from market. As a result of

the seasonal and relatively low-paid nature of the work, alongside a tight labour market and the fact that many are located in rural areas, the firms felt that it was unlikely that British workers could fill the emerging gaps. They argued that the wage hike required to make the seasonal roles attractive to British workers would make the business unprofitable.

Most interviewees viewed a return to the Seasonal Agricultural Workers Scheme as an acceptable alternative to free movement, which remained their preference. However, for non-seasonal parts of the sector, such as brassica, a seasonal scheme would not be appropriate and they face similar challenges to other sectors that employ large proportions of migrants. An income or skills-based scheme was not favoured by the businesses we interviewed. They pointed to the fact that the horticultural sector alone requires 80 thousand seasonal workers each year.¹⁵ Without access to migrant labour the interviewees said the remaining options available were to greatly reduce output, move operations abroad or wind up the business.

migrants and being responsible for ensuring their departure. In some cases employers even need to prove that employing a migrant will not adversely affect the wages or employment prospects for natives. It has been suggested that more sectors (other than just agriculture and food manufacturing) could make use of such schemes once we leave the EU. However, this could be a very challenging task. Such temporary schemes suit agriculture, with its reliance on temporary labour and history of using gangmasters and other intermediaries to recruit, house and manage migrants, but would be difficult for other sectors without these features, or history of using such temporary worker schemes.

Our polling (Figure 3) showed that agricultural firms are most likely to be in favour of such a system (see Box 3), perhaps unsurprising given that they have benefitted from one in the past. However it is noticeable that, in general, support for such a scheme is tepid at best, again indicating the disconnect between the migrant labour regime firms may face and what they hope for. Once again such a system will require evidence based decisions about which lower-paying sectors could have access to this route and for what time period, something government is not currently set up to for. Inevitably significant lobbying around which sectors are covered can be expected, this increases the need for a clear lead on recommendations to come from a strong, independent institution like the MAC.

A new migration regime needs to address the stock as well as the flow of migrant labour

Although a lot of attention has been directed at what immigration system may supersede the current one, perhaps more important for the UK labour market in the short-term is to reassure and guarantee the rights of those migrants living and working in the UK at the moment. If such reassurance is not provided, and emigration increases, then labour shortages are likely to be far more damaging given the reliance of many firms on these workers.

A proactive approach should lead to a better understanding of the skills and investment needs of the UK labour market

Providing such guarantees is no simple task – the Institute for Government estimates that this may take many years or the hiring of an additional 5,000 civil servants to process the permanent residence claims – however until this is done it will not be possible to introduce any new immigration system given the importance of being able to distinguish recently-arrived EU migrants from those that have been here for some time.¹⁶

A renewed focus on enforcement will be needed

A new immigration system is likely to increase the need for significant investment in labour market enforcement, to ease the transition and ensure that migrants – many of whom will have different rights depending on their exact migration status – have

i Box 4: Regional immigration systems

Other countries, notably Australia and Canada, have a regional element to their immigration systems and there has been some discussion of having something similar in the UK.²⁶ Our survey shows that what firms want does differ by region. For example approximately 56 per cent of Scottish firms polled want to keep freedom of movement compared to 24 per

cent in the West Midlands. However the Home Office has stated that it is not considering a regional approach to migration, such a regional system would require further investment, particularly in enforcement. It would also require political support, something hindered by a lack of regional political structures in much of England.

their rights respected. Once the new system is in place the need for greater levels of enforcement will remain, both to ensure a level playing field for businesses and to avoid exploitation. While the migration debate includes lots of references to the border, given that we are unlikely to start requiring EU/EEA visitors to the UK to apply for visas it is likely that it will be the labour market that is the point of enforcement in reality.

In that context it is welcome that David Metcalf was recently appointed to be the first Director of Labour Market Enforcement, overseeing the three bodies with a role in enforcement of labour market standards and regulations (HMRC, Gangmasters and Labour Abuse Authority and the Employment Agency Standards Inspectorate). In the future these bodies will have to oversee significantly more migrants with constraints on their right to work in the UK and so there will need to be significantly more investment to ensure that labour market standards are enforced and that people do not overstay their visas. At the moment the Home Office grants around 160,000 working visas to people from outside the EU/EEA and their dependents per year and spends £427 million on enforcement. Based on long and short-term migration data we know that around 150,000 EU/EEA migrants come to the UK to work per year. In the future these people will require visas and they will need to leave the country once their visas expire. The enforcement budget will have to be significantly expanded, if not doubled.

Taking back control on migration requires a clearer vision for what the country's immigration policy is trying to achieve

Putting in place a new system and helping firms and the labour market adjust to it requires a clearer sense of what we want the immigration system to achieve. One of the big impacts of Brexit is that we are - to a great extent - able to take decisions about

our approach to migration. But doing so requires government owning the trade-offs inherent in any migration policy. Should firms be able to easily get the labour they need to grow in all cases? Are there types of output we are happy to see stop being produced in the UK if that is the price of lower migration? How do we encourage firms to invest in skills and technology, without them facing short term skills shortages?

Taking back control means the UK government will need to answer these questions in a way it hasn't for a generation, and in a way that brings together immigration policy with wider labour market decision making. Reinforcing the sense that there are many more questions to be answered, the Conservative manifesto stated that the party will help sectors suffering skills shortages and support those that are 'strategically-important'. Aligning the system with the industrial strategy is a good idea but the devil will be in the detail, not least which sectors are deemed to be strategically important and by whom. Similarly the Labour party have made it clear that economic need will inform any future immigration system and recognises that many sectors depend on migrant labour, again though more detail is needed.

It is not just government that needs that vision as a guide, it is also a matter of urgency given the very worrying complacency of many firms, many of whom believe that the world is going to continue as it currently does with very little change impacting on them. In place of that lack of preparedness for change we need business to have the clarity that allows long term decisions on investment, training and indeed what they produce to be taken. There may be a temptation to delay a decision on the shape of an intended migration system given the wish for leverage in the Brexit negotiations, however the strategic needs of the UK labour market are more important than such tactical considerations. Furthermore a proactive approach should lead to a better understanding of the skills and investment needs of the UK labour market at a time when costs are rising and supply is likely to shrink at the bottom of the labour market. It is to this that the next chapter turns.

Summary of recommendations

— Skills

Recommendation 1 The MAC should have a greater role, and additional resources, to inform decision making on the UK's skills needs and migration.

Recommendation 2 More occupations will probably need an exemption from the current salary threshold for skilled migration.

— Costs

Recommendation 3 We can minimise the costs of any new immigration system by allowing migration by EU/EEA nationals with a job offer in a shortage occupation.

Recommendation 4 New temporary worker schemes will have to be created and, for those sectors that have no experience of using these, support should be provided.

— Enforcement

Recommendation 5 The Home Office's enforcement budget may need to rise from £427 million to as much as double this.

— Rights

Recommendation 6 Need to guarantee the rights of those migrants that currently live and work in the UK given how much the UK labour market depends on them.

— Next steps

Recommendation 7 In the near future the new government should publish a green paper setting out its vision for what the new immigration system aims to achieve by the end of 2017.

ComRes interviewed 503 business decision makers employing EU/EEA workers online between 12th and 26th April 2017. Data were weighted to be demographically representative of GB businesses by number of employees.

- 1 We define migrants as those not born in the UK.
- 2 RF analysis of ONS, *LFS*
- 3 HM Government, *The United Kingdom's exit from and new partnership with the European Union*, February 2017
- 4 J Owen, *Implementing Brexit: Immigration*, Institute for Government, May 2017
- 5 The Observer, "Record numbers of EU nurses quit NHS", 18 March 2017; The Guardian, "Farmers deliver stark warning over access to EU seasonal workers", 21 February 2017.
- 6 KPMG, *Labour migration in the hospitality sector*, March 2017
- 7 Resolution Foundation survey by ComRes, fieldwork 12th - 26th April 2017
- 8 The EU-Canada Comprehensive Economic and Trade Agreement (CETA) includes provisions making it easier for companies to transfer employees between the EU and Canada and provisions making it easier for EU professionals to temporarily supply certain services in Canada.
- 9 Office for National Statistics, *International immigration and the labour market, UK: 2016*, April 2016
- 10 Fees and charges include: Visa application fee (£575), standard visa processing fee (£150), Sponsorship Licence (£536 per annum), Certification of sponsorship (£199), Immigration skills charge (£364 per annum), NHS Levy (in theory paid by an employee but charged at the time of application - £200 per annum)
- 11 S Nevin, *Brexit: UK-EU movement of people – oral evidence*, EU Home Affairs Sub-Committee, 2017
- 12 J Portes, "Immigration – the way forward", in *Brexit Beckons: Thinking ahead by leading economists*, VoxEU, August 2016
- 13 Office for National Statistics, *International immigration and the labour market, UK: 2016*, April 2016
- 14 Office for National Statistics, *Note on the difference between National Insurance number registrations and the estimate of long-term international migration: 2016*, May 2016
- 15 NFU, *NFU welcomes seasonal labour debate*, November 2016
- 16 J Owen, *Implementing Brexit: Immigration*, Institute for Government, May 2017
- 17 All Party Parliamentary Group on Social Integration, *Interim Report into the Integration of Immigrants*, January 2017